

*INVESTMENTS
AGENDA ITEM I*

Pension Commission
City of Hartford Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, June 27, 2012
9:00 a.m.

MINUTES

INVESTMENT PROGRAM

MEMBERS PRESENT: Peter Stevens, Chairman; Frank Lord, Commissioner; Gene Goldman, Commissioner; Adam M. Cloud, Secretary;

MEMBER EXCUSED: Marc Nelson, Employee Representative

STAFF PRESENT: Gary B. Draghi, Director of Investments; P. Wayne Moore, Assistant Director of Investments; Terry Williams, Executive Assistant; Donna Parker, Plan Administrator and Lisa Silvestri, Assistant Corporation Counsel

STAFF EXCUSED: J. Sean Antoine, Principal Administrative Analyst and Anne Coleman, Assistant Plan Administrator

OTHERS PRESENT: Tad Fergusson, Pension Consulting Alliance

I. Review of Minutes: Meeting of May 25, 2012

Chairman Stevens introduced the item and asked for questions, comments or corrections. There were none.

A motion was made, seconded and adopted to accept the minutes as presented.

II. Status of the MERF Portfolio as of May 31, 2012

Chairman Stevens introduced the item and asked the Investment Unit to report. Mr. P. Wayne Moore, the MERF's Assistant Director of Investments, reported that, at May 31, 2012, the MERF portfolio had a market value of approximately \$912.4 million, and had generated a return of negative 3.5% net of fees for the month, outperforming the benchmark return of negative 4.1%, by 60 basis points.

Mr. Moore then stated that the MERF's alternatives portfolio had reported a net return of positive 2.4% for the month, outperforming the benchmark return of negative 5.9%, by 830 basis points. He noted that the equity portfolio reported a net return of negative 8.0% for the month, outperforming the benchmark return of negative 8.7%, by 70 basis points.

Mr. Moore then reported that the MERF's fixed income portfolio posted a net return of positive 0.4% for the month, lagging the benchmark return of positive 0.6%, by 20 basis points.

Mr. Moore then asked if there were any questions. There were none.

The Commission accepted the report for advice.

III. Alternative Investment Portfolio as of December 31, 2011 - With Presentation by Pension Consulting Alliance

Alternative Investment Portfolio Performance Report

Chairman Stevens introduced the item. Secretary Cloud asked Tad Fergusson of Pension Consulting Alliance ("PCA"), the MERF's alternative investment consultant, to speak to the Alternative Investment Program Performance Report prepared by PCA. Mr. Fergusson stated that as of year-end 2011 the MERF private equity program had committed \$113 million across 14 partnerships, with approximately \$90.5 million drawn down. He noted that long-term performance results were attractive with an 11% net internal rate of return ("IRR") since inception. He also noted that, since inception, the MERF's private equity program had received approximately \$55.3 million (61% of contributed capital) in distributions from its investments and had a reported value of approximately \$61.4 million as of December 31, 2011, resulting in a 1.3x multiple of the MERF's invested capital. He highlighted the fact that the MERF had received \$13 million in distributions in 2011, making it the highest year for distributions in the program's history.

Mr. Fergusson noted that the MERF's program was well diversified across vintage years and investment strategies, with exposure to buyouts, opportunistic, venture capital, mezzanine and real estate investments. He noted that PCA views each of the strategies as being attractive with a particular view that the opportunistic strategy is best positioned for growth given current market conditions.

In response to a question regarding the drivers of the distributions made to the MERF in 2011, Mr. Ferguson stated that these distributions were due to the mature nature of the holdings in the portfolio. He noted that many of these funds were in their liquidation stages and that the MERF was realizing some of the pent up value in its secondary funds of funds.

Mr. Fergusson went on to add that PCA believed that favorable dynamics exist in the venture space. He noted that there had been less venture capital commitments raised in recent years and, as a result, PCA anticipated less competition for deals and less "me too" companies formed. Mr. Fergusson noted that, in addition, the exit environment for venture capital backed companies had improved and that PCA had noted more stable exit activity for such investments via mergers and acquisitions and initial public offerings. Lastly, he stated that PCA believed that the key to long term success in venture capital investing was in partnering with groups that can gain access to the best venture capital firms.

Mr. Fergusson noted that the MERF's most recently added private equity partnership, Vista Equity Partners Fund IV, had already invested a significant portion of its commitments, resulting in a more efficient deployment of capital that would likely reduce the J-curve effect (i.e. negative returns in early years of a fund's life) due to its relatively high invested basis and provide the MERF with earlier insights into the construction of the portfolio.

In summary, Mr. Fergusson noted that the MERF's alternative investment program was entering its tenth year, with an IRR of 11% since inception and with approximately \$113 million of capital deployed in a well-diversified manner across fourteen partnerships. He stated that these results were attractive. He also noted that PCA continues to review a broad spectrum of potential opportunities, including primary and secondary funds of funds in attractive segments of the market as well as direct partnerships that are complementary to the MERF's existing private equity program exposures. Discussion ensued.

The Commission accepted the report for advice.

IV. Recommendation Regarding Investment in Pegasus Partners V, L.P. and Pension Consulting Alliance Report on Phase II Due Diligence

Chairman Stevens introduced the item. Secretary Cloud asked Gary Draghi, the MERF's Director of Investments to report to the Commission. Mr. Draghi referred to a summary recommendation from the Secretary and a report from PCA, recommending that the MERF commit \$5 million to Pegasus Partners V, L.P. ("Pegasus V").

Mr. Draghi commented that he and Mr. Moore had participated in a due diligence meeting, along with PCA, with Pegasus V representatives. This meeting was held at the firm's Manhattan offices. Pegasus V was represented by its management and key staff. During the meeting, the Pegasus V representatives described the firm and its investment approach, and they addressed questions and concerns raised by PCA and staff. Based on the firm's answers, Messrs. Draghi and Moore and PCA endorsed the investment.

Secretary Cloud highlighted the fact that Pegasus V targeted highly complex transactions that limited competition for deals and also invested in areas with long-term growth potential.

Commissioner Lord asked why the MERF's investment was limited to \$5 million. Mr. Draghi stated that a \$5 million investment was judged to be a comfortable amount, while also fitting in with the MERF's pacing schedule for private equity commitments. Mr. Draghi noted that the MERF had a pending commitment of \$8 million to the Ares Corporate Opportunity Fund IV which, which would bring the total investment plan for 2012 to \$13 million. Discussion ensued.

A motion was made, seconded and unanimously adopted to authorize the Secretary to execute the necessary documents to consummate a commitment of \$5 million to Pegasus Partners V, L.P. subject to the completion of successful contract negotiations.

V. Report on Annual Performance Review Meetings

- Atlanta Capital Management
- Pacific Investment Management Company
- Prudential Investment Management
- Shenkman Capital Management Inc.

Chairman Stevens introduced the item. Secretary Cloud stated that he believed the reports were self-explanatory and asked if there were any questions. Discussion ensued.

The Commission accepted the reports for advice.

VI. Other Business

Chairman Stevens introduced the item. Mr. Draghi updated the Commission by noting that the MERF had secured its \$8 million dollar commitment to the Ares Corporate Opportunity Fund IV, L.P.

He then updated the Commission on recent rebalancing activity. He first informed them that staff had arranged to draw down \$15 million from the State Street Global Advisors asset allocation fund ("AAF") to replenish the MERF's Benefits Payment Fund. He then informed the Commission that the MERF was also in the process of liquidating the passive non-U.S. fixed income component of this account with the proceeds to be reinvested in the other components of the AAF. He explained that this move was consistent with the MERF's efforts to rebalance the overall portfolio towards previously determined allocation targets. He also noted that this move would serve to limit risk as the MERF's non-U.S. fixed income exposure would now exclusively consist of its actively managed portfolio with Mondrian Investment Partners. Discussion ensued.

Treasurer Cloud closed by stating that he and staff had begun discussions with NEPC, the MERF's general consultant, about liquidity strategies.

He then asked if they were any questions, there were none.

The Commission accepted the report for advice.

Secretary Cloud asked the Commissioners to go into executive session to discuss personnel matters.

A motion was made, seconded and adopted to go into executive session to discuss MERF personnel matters.

A motion was made, seconded and adopted to exit executive session on personnel matters.

The Commission accepted the report for advice.

There being no further business, Chairman Stevens adjourned the meeting.

ATTEST: 
Adam M. Cloud, Secretary